



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-5

LAURA L. DOUD, CPA
City Auditor

September 21, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Quarterly Report of Cash and Investments for the quarter ending December 31, 2009.

DISCUSSION:

Pursuant to Section 803 of the City Charter, the Office of the City Auditor is charged with verifying cash in the City Treasury on a quarterly basis and providing a written report to the City Council. Attached is the Quarterly Report of Cash and Investments for the quarter ending December 31, 2009.

TIMING CONSIDERATIONS:

This item is not time sensitive.

FISCAL IMPACT:

There is no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

LAURA L. DOUD
CITY AUDITOR

Attachment



**City of Long Beach
Office of the City Auditor**

Quarterly Audit of Cash & Investments

As of December 31, 2009

September 2010

Laura L. Doud, CPA
City Auditor

Office of the City Auditor

Audit Report
Quarterly Audit of Cash & Investments

As of December 31, 2009

September 2010



Audit Staff

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EXECUTIVE SUMMARY

The Office of the City Auditor has completed the quarterly audit of the cash and investment balances of the City of Long Beach as of December 31, 2009. The City of Long Beach's management is responsible for the schedules of cash and investments. Our responsibility is to verify cash on a quarterly basis and provide a written report to the City Council. As of December 31, 2009, the City's cash and investment portfolio totaled approximately \$1.92 billion.

Based on the results of audit procedures performed as described below, cash and investment balances as recorded on the City's books as of December 31, 2009 agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with the relevant provisions of the California Government Code and the City's Investment Policy.

BACKGROUND

City Charter Mandate

Pursuant to Section 803 of the Charter of the City of Long Beach, California, the Office of the City Auditor is charged with verifying cash in the City Treasury on a quarterly basis and providing a written report to the City Council.

This performance audit of the cash and investment balances of the City of Long Beach includes verifying cash and investments with outside depositories, and evaluating the City Treasurer's compliance with the relevant provisions of the California Government Code and the City's Investment Policy, which is adopted annually by the City Council.

Pooled Cash and Investments

The City's pooled cash is a grouping of the City's available cash for investments. The larger amount of money within a pool allows the City to earn a higher rate of return than each fund could receive by itself. The Treasury Bureau invests pooled funds that are not needed for operations. The interest income earned in pooled cash and investments is apportioned to funds based on the ratio of daily cash balances to the total of pooled cash and investments.

Non-pooled Cash and Investments

Generally, non-pooled cash and investments are used for specific project operations or pledged for reserves or interest payments of outstanding debt.

Chandler Asset Management

On September 22, 2009, the City Council approved an agreement with Chandler Asset Management (Chandler) to provide investment advisory and management services relating to the City's pooled investment portfolio, for a period of two years with options for three one-year extensions, at the discretion of the City Manager. Per the agreement, Chandler actively manages approximately 25 percent of the City's pooled funds as well

as provides ongoing oversight of investments, financial markets, regulatory developments, investment strategy reviews and performance management.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to agree cash and investments as to the amount and description recorded on the City's books with outside depositories and to evaluate the City's compliance with the relevant provisions of the California Government Code and the City's Investment Policy.

The scope of this audit was limited to the quarter ending December 31, 2009.

We performed the following procedures in our audit:

- Obtained an understanding of the internal controls surrounding the City's cash and investments.
- Obtained written confirmations of all cash held by banks and investments held by the City Treasurer's safekeeping agent and other custodians as of December 31, 2009 and agreed them to the City's general ledger.
- Traced the balance of total investments on the City Treasurer's Investment Holdings Report as of December 31, 2009 to the City's general ledger.
- Analyzed the bank account and investment reconciliations as of December 31, 2009 and agreed them to the City's general ledger. This included testing, on a sample basis, the various adjustments made on the reconciliations.
- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report as of December 31, 2009 to the types of investments authorized for the City in accordance with the City's Investment Policy and California Government Code Section 53601.
- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report as of December 31, 2009 to the portfolio mix limitations imposed by the City's Investment Policy and California Government Code Section 53601 for specific investment types.
- Recomputed and reviewed supporting documentation, on a sample basis, relevant to the purchase, sale and maturity of individual investments to determine compliance with the following provisions of the California Government Code Section 53601, and the City's Investment Policy:
 - Purchase of investments meet minimum rating requirements and maximum allowable maturity periods.
 - All sections of the investment transaction record are properly completed and authorized by the City Treasurer.
 - Transactions are supported by documentation from third-party sources (individual broker confirmations, safekeeping statements, custodian statements, etc.).

The City finalizes its calculations of accrued interest at the end of the fiscal year; thus, testing of this interest is conducted as part of our fourth quarter cash and investments audit. As such, we did not test accrued interest, which is excluded from the balance of Total Cash and Investments as of December 31, 2009, listed below and in Attachments I and II. In addition, the allocation of pooled cash and investments between funds was outside the scope of this audit.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS AND CONCLUSIONS

The City's cash and investment balances as of December 31, 2009 are summarized as follows:

Pooled Cash and Investments	\$ 1,683,343,022
Non-Pooled Cash and Investments	<u>233,902,590</u>
Total Cash and Investments	<u>\$ 1,917,245,612</u>

The Schedule of Pooled and Non-Pooled Cash and Investment Balances by Fund, and the Schedule of Pooled and Non-Pooled Cash and Investment Balances by Security Type are attached.

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books as of December 31, 2009, agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with California Government Code Section 53601 and the City's Investment Policy, with regards to the audit procedures described in the Audit Objectives, Scope, and Methodology Section.

MANAGEMENT COMMENTS

Management concurs with the results of this audit report.

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT DECEMBER 31, 2009 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008**

Fund #	Name of Fund	Pooled 12/31/2009	Non-Pooled 12/31/2009	Total at 12/31/2009	Total at 12/31/2008
100	General Fund, General	\$ 49,808,284	\$ 4,076,823	\$ 53,885,107	\$ 62,335,931
103	General Fund, Library	223,212	20,705	243,917	(3,802,162)
105	General Fund, Parks and Recreation	3,828,933	2,093,216	5,922,149	(929,816)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	5,966,694	-	5,966,694	3,032,493
121	Special Revenue, Police & Fire	49,362	-	49,362	1,656,114
130	Special Revenue, Health	(40,912)	8,216	(32,696)	460,102
131	Special Revenue, CUPA	1,197,844	-	1,197,844	1,085,612
132	Special Revenue, Parking & Business	1,199,649	-	1,199,649	1,513,686
133	Special Advertising & Promotion	776,875	281	777,156	1,042,514
134	Special Revenue, Upland Oil	9,276,118	-	9,276,118	10,550,335
135	Housing Development	43,226,190	12,477	43,238,667	44,683,086
136	Belmont Shore Parking Meters	422,882	408,861	831,743	730,035
137	Planning & Building Department	3,645,986	-	3,645,986	3,596,568
149	Special Revenue, Business Assistance	551,249	-	551,249	1,537,175
150	Community Development Grants	(716,954)	14,281	(702,673)	964,902
151	Housing Authority	10,981,475	5,805,820	16,787,295	13,639,003
180	Special Revenue, Park Development	156,719	-	156,719	193,060
181	Gas Tax Street Improvement	5,202,122	-	5,202,122	7,326,203
182	Special Revenue, Transportation	31,923,219	-	31,923,219	42,812,687
201	Capital Projects	16,171,690	16,530,414	32,702,104	37,468,600
202	Assessment District-Capital Projects	1,631,589	3,164,038	4,795,627	2,739,642
220	RDA-LB Bond Authority	-	-	-	32,209
221	RDA-Poly High	786,423	218,442	1,004,865	1,032,301
222	RDA-West Beach	2,379,893	765,208	3,145,101	3,283,843
223	RDA-West Long Beach	22,754,724	3,131,101	25,885,825	24,736,386
224	RDA-Downtown	21,334,275	8,231,073	29,565,348	29,042,662
225	RDA-Project Income	5,091,391	-	5,091,391	2,911,469
227	RDA-Los Altos	588,647	407,967	996,614	1,016,448
228	RDA-Central	13,546,802	7,834,161	21,380,963	20,488,621
230	RDA-North	29,047,338	22,087,056	51,134,394	52,710,557
232	RDA-Housing	22,380	29,244,556	29,266,936	30,490,600
301	Gas Revenue	9,468,835	655,500	10,124,335	2,734,883
303	Gas Prepaid	6,731,145	20,962,616	27,693,761	17,256,994
310	Water	27,741,738	20,000	27,761,738	16,771,845
311	Sewer	4,405,668	3,164,925	7,570,593	2,889,085
320	Airport	28,852,475	2,258,260	31,110,735	27,428,375
330	Refuse/Recycling	24,810,253	3,000	24,813,253	27,598,855
331	SERRF	29,353,355	-	29,353,355	29,755,639
339	SERRF JPA	98,850	11,321,835	11,420,685	12,934,165
340	Towing Operations	781,867	3,700	785,567	485,408
380	Civic Center	7,792,651	3,219,401	11,012,052	11,957,305
385	General Services	7,580,498	5,000	7,585,498	5,080,566

**ATTACHMENT I
(CONTINUED)**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT DECEMBER 31, 2009 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008**

Fund #	Name of Fund	Pooled 12/31/2009	Non-Pooled 12/31/2009	Total at 12/31/2009	Total at 12/31/2008
386	Fleet Services Fund	\$ 13,099,746	\$ 2,890,150	\$ 15,989,896	\$ 10,350,024
390	Insurance	25,741,879	61	25,741,940	17,708,262
391	Employee Benefits	46,352,580	-	46,352,580	58,569,127
401	Tidelands Operations	47,141,067	18,779,273	65,920,340	65,113,382
403	Tidelands-Marina	11,698,803	15,600	11,714,403	8,872,872
410	Queen Mary	1,928,905	-	1,928,905	3,636,639
411	Tidelands Operating - Rainbow Harbor Area	3,262,535	3,607,127	6,869,662	7,609,652
420	Tidelands Oil Revenue	40,096,373	3,000	40,099,373	9,040,582
421	Tidelands Reserve - Subsidence	159,089,439	1,657,420	160,746,859	163,910,248
430	Harbor - Operations	531,965,042	35,000	532,000,042	591,768,698
431	Harbor - Capital	(70,982,608)	-	(70,982,608)	(28,130,027)
432	Harbor Debt Service	415,589,924	53,438,580	469,028,504	455,456,269
433	Harbor - Clean Air Action Plan	8,872,435	-	8,872,435	(1,822,727)
440	Expandable Trusts	1,052,866	-	1,052,866	1,035,274
451	ICTF JPA	8,505,371	-	8,505,371	11,884,577
452	Earthquake Assessment Agency Funds	2,016,289	-	2,016,289	1,834,824
453	Other Special Assessment	1,636,488	-	1,636,488	2,619,754
455	Other Agency	2,938,228	1,500	2,939,728	3,128,959
460	Los Cerritos Wetlands Authority Agency Special Assessment DFD #5 LB	-	63,866	63,866	42,284
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	83,676	1,280,350	1,364,026	1,419,588
471	Agency Special Assessment LBBFA Local Agency	-	675,100	675,100	873,985
472	Agency Special Assessment CFD#6 Pike Public Improvements	203,505	3,224,622	3,428,127	3,387,179
473	Agency Special Assessment - Douglas Park	598,613	2,297,790	2,896,403	3,343,251
474	CFD 2007 Belmont 2004 Spcl Tx Bd	-	264,218	264,218	-
999	Accrued Interest Receivable	(5,199,568)	-	(5,199,568)	(11,794,356)
	TOTAL CASH AND INVESTMENTS	\$ 1,683,343,022 *	\$ 233,902,590	\$ 1,917,245,612	\$ 1,942,132,306

* We tested the City's Pooled Investment Fund in aggregate; the City's allocation of Pooled Investments is presented for informational purposes only.

ATTACHMENT II

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY SECURITY TYPE
AT DECEMBER 31, 2009 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2008**

	<u>Pooled</u> <u>12/31/2009</u>	<u>Non-Pooled</u> <u>12/31/2009</u>	<u>Total</u> <u>12/31/2009</u>	<u>Total</u> <u>12/31/2008</u>
CASH:				
Cash in Banks	\$ 11,968,045	\$ 6,354,773	\$ 18,322,818	\$ 298,927,037
Cash with Fiscal Agents	-	160,267,217	160,267,217	172,653,675
	<u>\$ 11,968,045</u>	<u>\$ 166,621,990</u>	<u>\$ 178,590,035</u>	<u>\$ 471,580,712</u>
INVESTMENTS:				
U.S. Treasury Bills	\$ 612,422,602	\$ -	\$ 612,422,602	\$ 39,931,138
U.S. Treasury Notes	216,352,111	-	216,352,111	206,427,975
Federal Farm Credit Bank	81,359,680	-	81,359,680	76,683,178
Federal Home Loan Bank	188,545,594	-	188,545,594	287,176,526
Federal Home Loan Discount	-	-	-	19,821,678
Federal National Mortgage Association (FNMA)	148,490,987	-	148,490,987	223,154,733
FNMA Discounts Notes	44,977,971	-	44,977,971	19,791,706
Federal Home Loan Mortgage Corporation (FHLMC)	149,734,257	-	149,734,257	265,243,538
FHLMC Discount Notes	30,686,854	-	30,686,854	19,961,442
Certificate of Deposit	-	10,002,529	10,002,529	-
Local Agency Investment Fund	22,000,120	-	22,000,120	160,000,000
Guaranteed Investment Contracts	-	55,620,651	55,620,651	70,206,616
Special Assessment Bonds	-	1,657,420	1,657,420	(613,718)
Medium Term Notes (MTN)	48,544,523	-	48,544,523	-
Money Market	464,694	-	464,694	-
Savers Loan	2,604,092	-	2,604,092	2,829,754
Guaranteed Rate Management Account (GRMA)	65,191,492	-	65,191,492	79,937,028
GRMA Compensating Balance Account	60,000,000	-	60,000,000	-
Total Investments	<u>\$ 1,671,374,977</u>	<u>\$ 67,280,600</u>	<u>\$ 1,738,655,577</u>	<u>\$ 1,470,551,594</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,683,343,022</u>	<u>\$ 233,902,590</u>	<u>\$ 1,917,245,612</u>	<u>\$ 1,942,132,306</u>